FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT JUNE 30, 2013



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INDEPENDENT AUDITOR'S REPORT

School Board Newell School District No. 9-2 Newell, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **NEWELL SCHOOL DISTRICT NO. 9-2** (the District), Newell, South Dakota, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Governmental Activities

As discussed in Note 1e to the financial statements, management has not recorded certain capital assets in the governmental activities and has not recorded depreciation expense on any capital assets of the governmental activities. Accounting principles generally accepted in the United States of America require those capital assets be recorded as assets and depreciated, which would increase assets, net position, and expenses in the governmental activities. Based on management estimates, this departure would materially affect the governmental activities portion of the financial statements. However, actual amounts have not been determined.

Adverse Opinion on Governmental Activities

In our opinion, because of the effects of the matter discussed in the Basis for Adverse Opinion on Governmental Activities paragraph, the financial statements referred to previously do not present fairly, the financial position of the governmental activities of the District as of June 30, 2013, and the changes in financial position thereof for the year ended.

Unmodified Opinions on Remaining Financial Statements

In our opinion, the remaining financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30 2013, and the respective changes in financial position and cash flows, where applicable, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 37 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other SupplementaryInformation

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements of the District. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 10, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

KETEL THORSTENSON, LLP Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

This section of the District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2013. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position from governmental and business-type activities increased \$876,964 for the year ended June 30, 2013, primarily due to controlling payroll expense.
- The total cost of the District's programs decreased by five percent during fiscal year 2013, which is primarily due to controlling operation expenses.
- The general fund reported a \$1,305,354 current year fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

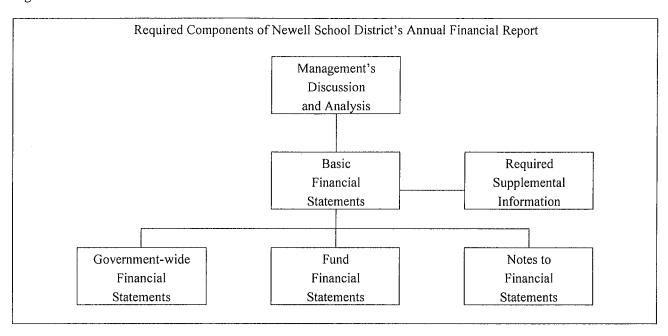
- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services were financed in the short-term, as well as what remains for future spending.
 - Proprietary fund statements offer short-term and long-term financial information about the activities that
 the school operates like businesses. The only proprietary fund operated by the District is the Food Service
 Fund.
 - Fiduciary fund statements provide information about the financial relationships like scholarship plans for graduating students in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) JUNE 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1



Government-Wide Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and changes in the state school aid funding formula from the State of South Dakota.

The government-wide financial statements of the District are reported in two categories:

- Governmental Activities This category includes the District's basic instructional services (elementary, high
 school educational programs, etc.), support services (guidance counselor, executive administration, board of
 education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and
 capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of
 these activities.
- Business-Type Activities The District charges a fee to students to help cover the costs of providing lunch services to all students. The Food Service Fund is the only business-type activity of the District.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) JUNE 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- State law requires some of the funds.
- The School Board establishes other funds to control and manage money for particular purposes (like the Scholarship Trust).

The District has three kinds of funds:

- Governmental Funds Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are greater or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- Proprietary Funds Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Enterprise Fund is the only proprietary fund maintained by the District.
- Fiduciary Funds The District is the trustee, or fiduciary, for various external and internal parties. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) JUNE 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2

	Government-Wide		Fund Statements	
	Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
	Entire District	The activities of the	Activities the District	Instances in which
Scope	government (except	District that are not	operates similar to	the District is the
	fiduciary funds)	proprietary or fiduciary,	private business - food	trustee or agent
	• ,	such as elementary	service	for someone else's
		and high school		resources
		education programs		
·	Statement of	Balance Sheet and	Balance Sheet;	Statement of
Required	Net Position and	Statement of Revenues,	Statement of Revenues,	Fiduciary
Financial	Statement of	Expenditures and	Expenses and	Net Position and
Statements	Activities	Changes in Fund	Changes in Net Position;	Statement of
		Balances	and Statement of	Changes
			Cash Flows	in Fiduciary Net Position
Accounting	Accrual accounting	Modified accrual	Accrual accounting	Accrual accounting
Basis and	and economic	accounting and current	and economic	and economic
Measurement Focus	resources focus	financial resources	resources focus	resources focus
rocus		focus		
	All assets and	Only assets expected	All assets and	All assets and
Type of	liabilities, both	to be used up and	liabilities, both	liabilities, both short-
Asset/	financial and capital,	liabilities that come due	financial and capital,	term and long-term;
Liability	and short-term	during the year or soon	and short-term	the District's funds do
Information	and long-term	thereafter; no capital	and long-term	not currently contain
		assets included		capital assets
				although they can
	All revenues and	Revenues for which	All revenues	All revenues
Type of	expenses during the	cash is received	and expenses during the	and expenses during
Inflow/	year, regardless of	during the year or soon	year, regardless of	the year, regardless
Outflow	when cash is	after the end of the year;	when cash is received	of when cash is
Information	received or paid	expenditures when goods	or paid	received or paid
		or services have been		
1		received and payment		
		is due during the year		
		or soon thereafter	77-7	

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) JUNE 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

This section explains the differences between the current and prior year's assets, liabilities, and changes in net position. The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of compensated absences payable, early retirement benefits payable, and capital outlay certificates payable have been reported in this manner on the Statement of Net Position. The difference between the District's assets and liabilities is its net position.

Table A-1

CO	MPARATIVE S	UMMARIZED	ST	ATEMEN'	ΤО	F NET PO	SIT	TION		
	Govern	mental		Busines	ss-T	уре				
	Activ	vities		Activ	vitie	S		To	tal	
	2012	2013		2012		2013		2012		2013
Current and Other Assets	\$ 3,301,878	\$ 3,950,455	\$	11,006	\$	9,107	\$	3,312,884	\$	3,959,562
Capital Assets	5,949,839	6,029,645		13,341		11,693		5,963,180		6,041,338
Total Assets	\$ 9,251,717	\$ 9,980,100	\$	24,347	\$	20,800	\$	9,276,064	\$	10,000,900
	A 0 (10 0 0 0	D 0 (51 022	Φ.	0.500	Ф	40	Φ	0.600.006	Φ.	0 (51 082
Long-Term Debt	\$ 2,618,353	\$ 2,651,233	\$	2,583	\$	40	\$	2,620,936	3	2,651,273
Other Liabilities Total Liabilities	961,796 \$ 3,580,149	772,865 \$ 3,424,098	\$	1,354 3,937	\$	7,820 7,860	\$	963,150 3,584,086	•	780,685 3,431,958
	<u> </u>	-,,						-,,		
Net Position										
Net Investment in										
Capital Assets	\$ 3,434,839	\$ 3,469,645	\$	13,341	\$	11,693	\$	3,448,180	\$	3,481,338
Restricted	1,396,090	1,812,541		-		-		1,396,090		1,812,541
Unrestricted	840,639	1,273,816		7,069		1,247		847,708		1,275,063
Total Net Position	\$ 5,671,568	\$ 6,556,002	\$	20,410	\$	12,940	\$	5,691,978	\$	6,568,942
Beginning Net Position	\$ 4,926,111	\$ 5,671,568	\$	3,740	\$	20,410	\$	4,929,851	\$	5,691,978
Change in Net Position		884,434	Φ		Ф		Ф	762,127	Ф	876,964
Percentage of Change	745,457	004,434		16,670		(7,470)		102,121		0/0,704
in Net Position	15.13%	15.59%		445.72%		-36.60%		15.46%		15.41%

Governmental Activities

The increase in net position for the governmental activities from 2012 to 2013 is due to increased assets.

Business-Type Activities

The decrease in net position for business-type activities from 2012 to 2013 is due to controlling payroll and related expenses as well as decreases in operation expenses.

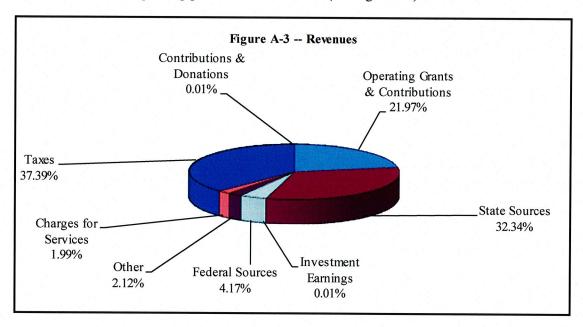
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) JUNE 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

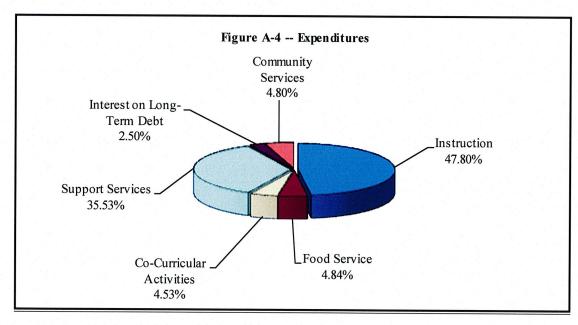
Changes in Net Position

This section illustrates condensed financial comparison of revenues and expenses and provides explanations for significant differences.

The District's revenues totaled \$4,031,962 for the year ended June 30, 2013. (See Table A-2.) Over one third of the District's revenue comes from property and other taxes, with approximately another third coming from state aid, and over 20 percent comes from operating grants and contributions. (See Figure A-3).



The total cost of all programs and services decreased during fiscal year 2013. The District's expenses cover a range of services, with approximately one-half encompassing instruction, and approximately one third for support services. (See Figure A-4)



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) JUNE 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

Table A-2 and the narrative that follows consider the operations of the District.

Table A-2

	Govern	otal ımental	Busines			
	Acti [*] 2012	vities 2013	Acti 2012	vities 2013	2012	otal 2013
Revenues	2012	2013	2012	2013	2012	2015
Program Revenues	Ф. 40.016			0 10 1 50	.	
Charges for Services	\$ 40,016	\$ 40,155	\$ 48,447	\$ 40,153	\$ 88,463	\$ 80,308
Operating Grants and Contributions	792,181	780,751	108,591	105,040	900,772	885,791
General Revenues						
Property Taxes	1,425,410	1,363,320	-	-	1,425,410	1,363,320
Gross Receipts Taxes	134,255	144,060	-	_	134,255	144,060
Revenue State Sources	1,282,228	1,303,941	-	-	1,282,228	1,303,941
Revenue Federal Sources	133,060	168,326	-	-	133,060	168,326
Unrestricted Investment Earnings	137	169	-	-	137	169
Other General Revenues	101,020	85,459	-	-	101,020	85,459
Contributions and Donations	879	588	-	_	879	588
Total Revenues	3,909,186	3,886,769	157,038	145,193	4,066,224	4,031,962
Expenses						
Instruction	1,768,179	1,508,088	-	-	1,768,179	1,508,088
Support Services	957,440	1,121,336	-	-	957,440	1,121,336
Community Services	150,476	151,317	-	-	150,476	151,317
Non-Programmed Charges	-	-	-	-	-	-
Co-Curricular Activities	174,455	142,777	-	-	174,455	142,777
Interest on Long-Term Debt	88,179	78,817	_	-	88,179	78,817
Food Service	-		165,368	152,663	165,368	152,663
Total Expenses	3,138,729	3,002,335	165,368	152,663	3,304,097	3,154,998
Excess Revenues (Expenses)						
Before Transfers	770,457	884,434	(8,330)	(7,470)	762,127	876,964
Transfers	(25,000)	-	25,000	_	_	-
	,		·	, <u>.</u>	<u></u>	
Change in Net Position	745,457	884,434	16,670	(7,470)	762,127	876,964
Ending Net Position	\$ 5,671,568	\$ 6,556,002	\$ 20,410	\$ 12,940	\$ 5,691,978	\$ 6,568,942

Governmental Activities

The District had experienced decreased operating grants and contributions during the 2013 year as compared to the 2012 year. The decrease in expenditures was due to controlling payroll and related expenses and decreasing operation expenses along with a decrease in some state grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) JUNE 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONCLUDED)

Changes in Net Position (Concluded)

Business-Type Activities

Revenues of the District's business-type activities decreased by approximately eight percent, and expenses decreased by approximately eight percent. The decrease was due to controlling payroll and related expenses as well as decreases in operation expenses along with a decrease in revenues received from grants.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Pension Tax fund balance decreased due to an increase in the allocation of Elementary, Middle School and High School SDRS payments. The General Fund's fund balance increased by \$430,491, primarily due to a decrease in operational and payroll expenses. The Special Education Fund's fund balance increased by \$94,629, primarily due to decreases in special education operational costs and grant funding. The Capital Outlay's fund balance had increased by \$322,563, primarily due to the decrease in debt service expenses and capital outlay-related expenses such as tablets and vehicle purchases.

BUDGETARY HIGHLIGHTS

There were no significant budget changes for the General Fund.

Net variances between budget and actual were due to unexpected revenues received and expenses incurred.

CAPITAL ASSET ADMINISTRATION

By the end of 2013, the District had invested approximately \$6.0 million in a broad range of capital assets, including land, buildings, and various machinery and equipment. (See Table A-3.) Governmental capital asset additions and deletions are not consistently tracked by the District, and thus not depreciated. Business-type fixed assets are net of depreciation.

Table A-3

	(Capital A Net of Depre				
		Gover Acti	 	Busine Act	ess-Ty ivities	-
		2012	2013	2012 20 1		
Land	-\$	24,544	\$ 24,544	\$ -	\$	
Buildings		4,555,073	4,555,073	-		-
Improvements Other Than Buildings		191,242	191,242	_		_
Equipment		1,178,980	1,258,786	13,341		11,693
Total Capital Assets (Net)	\$	5,949,839	\$ 6,029,645	\$ 13,341	\$	11,693

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) JUNE 30, 2013

LONG-TERM DEBT

At year-end, the District had \$2,651,273 in long-term obligations. This is an increase of 1 percent as shown on Table A-4 below.

Table A-4

Outsta	nding	Debt and O	bliga	ations		
		<u>2012</u>		<u>2013</u>	Total Dollar <u>Change</u>	Total Percentage <u>Change</u>
Early Retirement	\$	7,642	\$	_	\$ (7,642)	-100%
Compensated Absences		98,294		91,273	(7,021)	-7%
Capital Outlay Certificates		2,515,000		2,560,000	 45,000	2%
Total Outstanding Debt and Obligations	\$	2,620,936	\$	2,651,273	\$ 30,337	1%

In the year 2012, capital outlay certificates were refunded with proceeds deposited into an escrow account until the refunded bonds are paid in fiscal year 2015. During 2013, \$225,000 of additional general obligation capital outlay certificates were issued.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's current economic position has shown change. The District experienced an increase in total property valuation from \$164,162,012 to \$180,171,975. The increase in property valuation increases the District's ability to generate revenue from property taxes; however, the total amount, which can be levied, is limited by the State of South Dakota.

One of the primary sources of revenue to the District is based on a per student allocation from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal \$4,490.92 per pupil. The District has experienced a decrease of 7 ADM from 2012 to 2013. This decrease in ADM will result in the District receiving less overall revenue from the State of South Dakota.

The District's enrollment decreased from 335 to 328 (K-12) between fiscal year 2012 and 2013.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Newell School District's Business Office, 501 Dartmouth Avenue, Newell, SD 57760.

STATEMENT OF NET POSITION JUNE 30, 2013

		Primary G			_	
	\mathbf{G}	overnmental	Bus	iness-Type		
		Activities	A	ctivities		Total
<u>ASSETS</u>						
Cash and Investments	\$	2,151,984	\$	-	\$	2,151,984
Taxes Receivable		685,196		-		685,196
Receivables (Note 3)		221,443		1,831		223,274
Due from Other Fund (Note 9)		7,820		-		7,820
Inventories		-		6,243		6,243
Prepaid Insurance		18,048		1,033		19,081
Deferred Charges		27,807		-		27,807
Restricted Cash (Note 1j and 6)		838,157		-		838,157
Capital Assets (Note 5):						
Land		24,544		-		24,544
Buildings		4,555,073		-		4,555,073
Improvements Other than Buildings		191,242		-		191,242
Equipment		1,258,786		-		1,258,786
Equipment, Net of Depreciation		-		11,693		11,693
TOTAL ASSETS	\$	9,980,100	\$	20,800	\$	10,000,900
			· .			
LIABILITIES						
Accounts Payable and Accrued Expenses	\$	180,333	\$	-	\$	180,333
Due to Other Fund (Note 9)		-		7,820		7,820
Deferred Revenue		592,532		-		592,532
Long-Term Liabilities (Note 6):						
Due within One Year		283,009		40		283,049
Due in More than One Year		2,368,224		-		2,368,224
TOTAL LIABILITIES		3,424,098		7,860		3,431,958
NET POSITION						
Net Investment in Capital Assets		3,469,645		11,693		3,481,338
Restricted for:						
Capital Outlay		752,056		-		752,056
Debt Service		838,157		-		838,157
Pension Tax		117,210		-		117,210
Special Education		101,672		-		101,672
Music, Athletics, and Library		3,446		-		3,446
Unrestricted		1,273,816		1,247		1,275,063
TOTAL NET POSITION		6,556,002		12,940		6,568,942
		· · · · · · · · · · · · · · · · · · ·				
TOTAL LIABILITIES AND NET POSITION	\$	9,980,100	\$	20,800	\$	10,000,900

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Net (Expense) Revenue and Changes in Net Position **Program Revenues Primary Government** Charges Operating **Business**for Grants and Governmental Type Contributions Functions/Programs **Expenses** Services Activities **Activities Total** Governmental Activities: Instruction \$ 1,508,088 \$ 780,751 \$ (727,337) \$ (727,337)1,121,336 (1,121,336)Support Services (1,121,336)151,317 Community Services (151,317)(151,317)Co-Curricular Activities 142,777 40,155 (102,622)(102,622)78,817 Interest on Long-Term Debt * (78,817)(78,817)40,155 780,751 Total Governmental Activities 3,002,335 (2,181,429)(2,181,429)Business-Type Activities: Food Service 152,663 40,153 105,040 (7,470)(7,470)**Total Primary Government** \$ 3,154,998 (7,470)(2,188,899)\$ 80,308 \$ 885,791 (2,181,429)General Revenues Taxes: **Property Taxes** 1,363,320 1,363,320 Gross Receipts Taxes 144,060 144,060 Revenue from State Sources: 1,294,424 1,294,424 State Aid Other 9,517 9,517 168,326 Revenue from Federal Sources 168,326 Unrestricted Investment Earnings 169 169 Other General Revenues 85,459 85,459 Contributions not Restricted to Specific Programs 588 588 Total General Revenues 3,065,863 3,065,863 884,434 (7,470)876,964 Change in Net Position 5,691,978 5,671,568 20,410 Net Position -- Beginning 6,568,942 Net Position -- Ending 6,556,002 12,940

^{*} The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

NEWELL SCHOOL DISTRICT NO. 9-2 GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2013

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	G	Total overnmental Funds
ASSETS	 	***************************************			***************************************	
Cash and Investments	\$ 1,226,698	\$ 725,978	\$ 78,702	\$ 120,606	\$	2,151,984
Cash with Fiscal Agent (Notes 1j and 6)	-	838,157	-	-		838,157
Taxes Receivable Current	268,632	221,188	103,663	22,119		615,602
Taxes Receivable Delinquent	35,334	21,860	10,214	2,186		69,594
Due from Other Fund (Note 9)	7,820	-	-	-		7,820
Due from State Government (Note 3)	182,748	-	38,695	-		221,443
Prepaid Insurance	16,187	-	1,861	-		18,048
Total Assets	\$ 1,737,419	\$ 1,807,183	\$ 233,135	\$ 144,911	\$	3,922,648
LIABILITIES Accounts Payable and Accrued Expenses	\$ 144,405	\$ 	\$ 29,775	\$ 6,153	\$	180,333
Deferred Revenue	 287,660	 238,830	111,902	 23,734		662,126
Total Liabilities	 432,065	 238,830	 141,677	 29,887		842,459
FUND EQUITY						
Nonspendable - Prepaid Assets	16,187	-	1,861	-		18,048
Restricted - Capital Outlay	-	730,196	-	-		730,196
Restricted - Pension Tax	-	-	-	115,024		115,024
Restricted - Special Education	-	-	89,597	-		89,597
Restricted - Debt Service	-	838,157	-	-		838,157
Restricted - Music, Athletics,						
and Library (Note 7)	3,446	-	-	-		3,446
Unassigned	1,285,721	-	-	-		1,285,721
Total Fund Equity	1,305,354	1,568,353	91,458	115,024		3,080,189
Total Liabilities and Fund Equity	\$ 1,737,419	\$ 1,807,183	\$ 233,135	\$ 144,911	\$	3,922,648

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO GOVERNMENT-WIDE STATEMENT OF NET POSITION JUNE 30, 2013

Total Fund Balances - Governmental Funds	\$ 3,080,189
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	6,029,645
Long-term liabilities, including capital outlay certificates payable, accrued leave payable, and early retirement payable, are not due in the current period and therefore are not reported in the funds.	(2,651,233)
Bond costs are capitalized on the Statement of Activities as deferred charges and amortized over the life of the bonds. These costs were expended in the governmental funds.	27,807
Assets, such as taxes receivable, that are not available to pay for current period expenditures are deferred in the funds.	69,594
Net Position - Governmental Funds	\$ 6,556,002

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE VEAR ENDED HINE 30, 2013

FUK.	HE	YEAK	FRDFD	JOINE	30, 2013

FOR THE TEAR ENDED JONE 30, 2013	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	Total Governmental Funds
Revenues:			2,744	1 4114	- Tunus
1000 Revenue from Local Sources:					
1110 Ad Valorem Taxes	\$ 555,466	\$ 483,722	\$ 226,470	\$ 48,410	\$ 1,314,068
1120 Prior Years' Ad Valorem Taxes	21,846	13,620	6,363	1,362	43,191
1140 Gross Receipts Taxes	144,060	· -	· -	, -	144,060
1190 Penalties and Interest on Taxes	6,712	2,690	1,256	269	10,927
1500 Earnings on Investments and Deposits	169	´-	, _	-	169
1700 Cocurricular Activities:					
1710 Admissions	16,401	_	-	-	16,401
1790 Other Pupil Activity	23,754	_	-	_	23,754
1900 Other Revenue from Local Sources:	,				,,,,
1910 Rentals	475	_	<u>.</u>	æ	475
1920 Contributions and Donations	588	-	-	-	588
1990 Other	47,528	_	5,073	_	52,601
2110 County Apportionment	29,388	-	-	_	29,388
3000 Revenue from State Sources:	,				—- ,
3110 Unrestricted Grants-in-Aid	1,294,424	-	_	_	1,294,424
3120 Restricted Grants-In-Aid	-,,	-	266,689	-	266,689
3900 Other State Revenue	9,517	_		-	9,517
4000 Revenue from Federal Sources:	2,5-2.7				- ,-
4120 Unrestricted Grants-in-Aid Received from					
Federal Government Through State	168,326	-	-	-	168,326
4150-4199 Restricted Grants-in-Aid Received	100,020				100,00
from Federal Government through State	425,941	-	88,121	-	514,062
Total Revenues	2,744,595	500,032	593,972	50,041	3,888,640
			· · · · · · · · · · · · · · · · · · ·	,	, , ,
Expenditures:					
1100 Instruction - Regular Programs:					
1110 Elementary	379,066	-	-	15,090	394,156
1120 Middle/Junior High	163,713	_	_	7,590	171,303
1130 High School	374,166	_	-	17,362	391,528
1200 Instruction - Special Programs:	2,			,	,
1220 Programs for Special Education	-	-	340,839	_	340,839
1270 Educationally Deprived	211,810	_	-	2,930	214,740
2100 Support Services - Pupils:				_,,,,,	21.,,
2130 Health	<u>.</u>	-	21,719	-	21,719
2170 Student Therapy Services	_	-	24,970	-	24,970
2200 Support Services - Instructional Staff:			21,570		21,570
2220 Educational Media	164,110	_	_	_	164,110
2300 Support Services - General:	10-1,110				101,110
2310 Board of Education	95,817	_	_	_	95,817
2320 Executive Administration	142,301	-	-	_	142,301
2400 Support Services - School:	142,301	-	-	-	172,501
2410 Office of the Principal	843		_	_	843
2410 Office of the Filliopai	043	<u>.</u>	-	~	040

NEWELL SCHOOL DISTRICT NO. 9-2

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund				Capital Outlay	Ed	Special lucation	ension Tax	Total Governmental
2500 Support Services - Business:	Funa		Fund		Fund	 Fund	Funds		
2500 Support Services - Business. 2520 Fiscal Services	87,	188	-		_	_	87,488		
2530 Facilities Acquisition and Construction	07,	-	55,019		_	_	55,019		
2540 Operation and Maintenance of Plant	318,	759	5,116		_	_	323,875		
2550 Pupil Transportation	83,4		4,701		_	_	88,165		
2570 Internal Services	05,	-	5,214		_	_	5,214		
2700 Support Services - Special Education:			- ,				- 1		
2730 Transportation Costs		_	_		28,186	_	28,186		
2750 Other Special Education Costs		-	-		83,629	_	83,629		
3000 Community Services:					,		,		
3500 Custody and Care of Children	151,)27	-		-	290	151,317		
4500 Early Retirement	,	_	-		-	7,642	7,642		
5000 Debt Service		_	255,608		-	-	255,608		
6000 Cocurricular Activities:									
6900 Combined Activities	141,	540	-		-	1,237	142,777		
7000 Capital Outlay		-	79,806		-	-	79,806		
Total Expenditures	2,314,	04	405,464		499,343	 52,141	3,271,052		
Excess of Revenues over (under) Expenditures	430,	191	94,568		94,629	 (2,100)	617,588		
Other Financing Sources									
5122 Debt Proceeds - General Obligation									
Certificates		_	225,000		-	-	225,000		
5130 Sale of Surplus Property		_	2,995		_	-	2,995		
Total Other Financing Sources		-	227,995		-	 _	227,995		
Net Change in Fund Balances	430,	191	322,563		94,629	(2,100)	845,583		
Fund Balances Beginning (Deficit)	874,	363	1,245,790	14.1	(3,171)	117,124	2,234,606		
Fund Balances Ending	\$ 1,305,	354 \$	1,568,353	\$	91,458	\$ 115,024	\$ 3,080,189		

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR YEAR ENDED JUNE 30, 2013

Net Change in Fund Balances - Total Governmental Funds	\$ 845,583
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	79,806
In both the Government-wide and governmental fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the governmental fund financial statements differs from the accounting in the Government-wide statements in that the governmental fund financial statements require the amount to be available. This amount reflects the	
application of both the application period and availability criteria.	(4,866)
Governmental funds recognize expenditures for amounts of compensated absences and early retirement benefits actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences and early retirement benefits earned by employees are not recognized in the governmental funds. In the Statement of Activities, expenses for these benefits are recognized when the employees earn leave	
credits or elect to retire early.	12,120
The issuance of refunding capital outlay certificates is an other financing source in the fund statements, but increases long-term liabilities in the Government-wide statements.	(225,000)
Bond costs are capitalized on the Statement of Activities as deferred charges and amortized over the life of the refunded bonds. These costs were expenses in the governmental funds. funds.	(3,209)
Payment of principal on long-term debt is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Government-wide statements.	180,000
Change in Net Position of Governmental Activities	\$ 884,434

PROPRIETARY FUNDS BALANCE SHEET JUNE 30, 2013

		Food Service Fund
ASSETS		
Current Assets:		
Accounts Receivable	\$	453
Inventory of Supplies		203
Due from State Government (Note 3)		1,378
Inventory of Stores Purchased for Resale		5,086
Inventory of Donated Food		954
Prepaid Insurance		1,033
Total Current Assets		9,107
Noncurrent Assets:		
Capital Assets (Note 5):		
Equipment		55,636
Less Accumulated Depreciation		(43,943)
Total Noncurrent Assets		11,693
TOTAL ASSETS	\$	20,800
LIABILITIES		
Current Liabilities;		
Accrued Leave Payable (Note 6)	\$	40
Due to Other Fund (Note 9)	·	7,820
Total Liabilities		7,860
NATE DOCUMENT		
NET POSITION		
Net Investment in Capital Assets		11,693
Unrestricted Net Position		1,247
Total Net Position		12,940
TOTAL LIABILITIES AND NET POSITION	\$	20,800

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION FOR THE YEAR ENDED JUNE 30, 2013

	Food Service Fund		
Operating Revenue			
Sales:			
To Pupils	\$ 36,281		
To Adults	1,402		
Miscellaneous	2,470		
Total Operating Revenue	40,153		
Operating Expenses			
Cost of Sales - Purchased Food	75,028		
Salaries	34,719		
Employee Benefits	20,328		
Supplies	14,731		
Purchased Services	869		
Cost of Sales - Donated Food	5,340		
Depreciation - Local Funds	 1,648		
Total Operating Expenses	152,663		
Operating Loss	 (112,510)		
Nonoperating Revenue			
Federal Sources:			
Cash Reimbursements	90,129		
Fresh Fruits and Vegetables	8,831		
Donated Food	6,080		
Total Nonoperating Revenue	105,040		
Change in Net Position	(7,470)		
Net Position Beginning	20,410		
Net Position Ending	\$ 12,940		

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2013

		Food Service Fund
Cash Flows from Operating Activities		
Receipts from Customers	\$	37,683
Other Cash Receipts	Ψ	2,470
Payments to Suppliers		(95,393)
Payments to Suppliers Payments to Employees		(57,603)
Net Cash Used in Operating Activities		(112,843)
The Calon Cook in Sporting	 	(112,610)
Cash Flows from Noncapital Financing Activities		
Operating Subsidies		97,582
Cash from Other Fund		7,820
Net Cash Provided by Noncapital Financing Activities		105,402
Net Change in Cash		(7,441)
The Change in Cash		(1,112)
Cash Beginning		7,441
Cash Ending	\$	_
Reconciliation of Operating Loss to Net Cash Flows		
Used in Operating Activities		
Operating Loss	\$	(112,510)
Adjustments to Reconcile Operating Loss to Net Cash		
Used in Operating Activities:		
Cost of Sales - Donated Food		5,340
Depreciation Expense		1,648
Change in Assets and Liabilities:		
Inventories		(3,424)
Accounts Payable		(1,341)
Accrued Leave and Payroll Deductions Payable		(2,556)
Net Cash Used in Operating Activities	\$	(112,843)
Nanagh Investing Canital and Pinanging Astivities		
Noncash Investing, Capital and Financing Activities Value of Commodities Received	\$	6,080
varies of Commodities received	Ψ	0,000

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2013

	Private-Purpose Trust Fund						
ASSETS Cash and Investments	\$ 10,522	\$	59,522				
LIABILITIES Amounts Held for Others	-	_\$	59,522				
NET POSITION Restricted for Scholarships	\$ 10,522	=					

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FOR THE YEAR ENDED JUNE 30, 2013

	Private- Purpose	
ADDITIONS	Trust Fun	a
Interest Earnings	\$	10
REDUCTIONS		
Scholarships		
Change in Net Position		10
Net Position - Beginning	10,5	512
Net Position - Ending	\$ 10,5	522

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

(1) Summary of Significant Accounting Policies

a. Reporting Entity

The reporting entity of the District consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The funds included in this report are controlled by or dependent upon the District's Board of Education. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments.

b. Basis of Presentation

Government-Wide Statements:

The Statement of Net Position and the Statement of Activities display information about the reporting entity as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The Statement of Net Position reports all financial and capital resources, in a balance sheet form (assets equal liabilities plus net position). Net position is displayed in three components, as applicable: net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, propriety, and fiduciary. An emphasis is placed on major funds within the governmental and propriety categories. A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

- 1. Total assets, liabilities, revenues, or expenditures of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- 2. Total assets, liabilities, revenues, or expenditures of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or
- 3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year-to-year, or because of public interest in the fund's operations.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund – A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district. The General fund is always a major fund. It is used to account for all financial resources except those accounted for in another fund.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are restricted or committed to expenditure for specific purposes. Fund equity of these funds are restricted by law.

Capital Outlay Fund - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

Special Education Fund - A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the District. This fund is financed by grants and property taxes. This is a major fund.

Pension Tax Fund – A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the District's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. This is a major Fund.

Proprietary Funds:

Enterprise Funds – Enterprise funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Food Service Fund - A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund and is the only enterprise fund maintained by the District.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds.

Private-Purpose Trust Funds — Private-purpose trust funds are used to account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The District maintains one private-purpose trust fund, which is a scholarship fund that was established by a donation made to the District for payment of scholarships to District students.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

Fiduciary Funds (Continued):

Agency Funds - Agency funds are used to account for resources held by the District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature, they do not involve the measurement of results of operations. The District maintains a variety of agency funds. Agency funds are established to account for the monies earned by student organizations for various expenditures.

c. Measurement Focus and Basis of Accounting

Measurement focus is a term to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the current financial resources measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the economic resources measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned, and expenses and related liabilities are recorded when an obligation is incurred.

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the District, the length of that cycle is 60 days.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting (Continued):

Fund Financial Statements (Continued):

Under the modified accrual basis of accounting, receivables may be measurable but not available. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been meet.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

All proprietary and fiduciary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified as follows:

In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as internal balances.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in Advances to asset accounts) are equally offset by a non-spendable fund balance designation, which indicates that they do not constitute available spendable resources since they are not a component of net current assets. Current portions of interfund loans receivable (reported in Due From asset accounts) are considered available, spendable resources.

e. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or propriety fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements:

The District does not have subsidiary records to support its governmental capital asset balance. In addition, capital asset additions and deletions have not been consistently or accurately recorded since 1994. No accumulated depreciation or depreciation expense is recorded in the government-wide statements for governmental activities.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in the proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

The estimated useful lives of equipment reported in the proprietary funds are 5 to 15 years.

f. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of compensated absences payable, early retirement payable, and capital outlay certificates.

In the governmental fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

Compensated absences consist of sick leave earned. Sick leave is earned by certified and classified employees at the rate of 15 days per year and 1.25 days per month of employment, respectively. The number of days accumulated is limited to a maximum of 70 days for certified employees and 40 days for classified employees. Upon termination, some employees are entitled to receive compensation for their accrued sick leave balance. Those with three years of service or more will receive compensation at the rate of \$60 and \$20 per day of accumulated leave for certified and classified employees, respectively.

Full-time teachers and administrators may participate in an early retirement program. Upon meeting certain criteria, cash benefits equal to four percent of the employee's salary per year of employment up to a maximum of 75 percent of their current salary may be paid to eligible employees upon termination. The benefit is paid in 18 equal monthly installments.

Funding for compensated absences is expended in the general, special revenue, and food service funds. Early retirement is expended in the pension tax fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

g. Program Revenues

In the government-wide Statement of Activities, reported program revenues are derived directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

- 1. Charges for services These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services
- 2. Program-specific operating grants and contributions These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
- 3. Program-specific capital grants and contributions These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program. There were none during 2013.

h. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund Statement of Revenues, Expenses, and Changes in Fund Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as non-capital financing activities are not reported as components of operating revenues or expenses.

i. Inventory

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

Inventory in the enterprise fund consists of food and supplies held for consumption. Inventory is recorded at the time individual inventory items are purchased and expensed when consumed.

There are no significant amounts of governmental supplies inventory maintained by the District.

j. Deposits and Investments

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts that exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating, which may not be less than "AA" or better, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

j. Deposits and Investments (Continued)

Investments – In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of June 30, 2013, the District's cash and investments consisted of checking accounts and certificates of deposit. Cash with fiscal agent is invested in US Treasury Notes with maturities of one to three years based on the debt service requirements of the 2012 Crossover debt (See Note 6).

Credit Risk:

State law limits eligible investments for the District, as discussed above. The District has no investment policy that would further limit its investment choices.

Interest Rate Risk:

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk:

The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2013, none of the District's deposits were exposed to custodial credit risk.

State law allows income from deposits to be credited to either the General Fund or the fund making the investment. The District's policy is to credit all income from deposits to the fund making the investment.

k. Deferred Revenue

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met, primarily property tax revenue (Note 2).

1. Cash and Cash Equivalents

The District pools its cash resources for depositing and investing purposes. Accordingly, the District has access to its cash resources on demand. All reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

m. Equity Classifications

Government-wide Statements:

Equity is classified as net position and is displayed in three components:

- 1. Net investment in capital assets Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- 2. Restricted net position Consists of net position with constraints placed on their use either by (a) external groups, such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
- 3. Unrestricted net position All other net position that do not meet the definition of restricted or net investment in capital assets.

It is the District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Governmental Funds:

The District classifies governmental fund balances as follows:

<u>Nonspendable</u> – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

<u>Restricted</u> – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

<u>Committed</u> – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

<u>Assigned</u> – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the School Board, Superintendent and Business Manager.

<u>Unassigned</u> – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories.

The District uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013

(1) Summary of Significant Accounting Policies (Concluded)

m. Equity Classifications (Continued)

Proprietary and Fiduciary Funds:

Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as restricted net position held in trust for other purposes.

(2) Property Taxes

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, become due and payable as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the District's taxes and remits them to the District.

District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore is not susceptible to accrual has been reported as deferred revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the fiscal period or within the "availability period."

(3) Due from State Government

Amounts due from state governments include grant reimbursements due from the State of South Dakota.

(4) Retirement Plan - South Dakota Retirement System

The following summary description of participation in the South Dakota Retirement System (the System) is provided for general information purposes. Participants should refer to South Dakota Codified Law (SDCL) 3-12 and employee handbooks for more complete information.

All full-time and permanent part-time employees working more than 20 hours per week during the school year participate in the System, a cost-sharing, multiple-employer, public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The System provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SDRS, PO Box 1098, Pierre, South Dakota 57501-1098 or by calling (605) 773-3731.

Covered employees (Class A Members) are required by state statute to contribute 6.0 percent of their salary to the System. State statute also requires the employer to contribute an amount equal to the employee's contribution and to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the System for the fiscal years ended June 30, 2013, 2012, and 2011 were \$92,726, \$86,037, and \$121,340, respectively, equal to the required contributions each year.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013

(5) Changes in Capital Assets

Changes in capital assets used in governmental activities were as follows (see Note 1):

Balance					Tra	insfers/	Balance		
Governmental Activities	Ju	ne 30, 2012		Additions	Reti	rements	Ju	ne 30, 2013	
Land	\$	24,544	\$	=	\$	-	\$	24,544	
Buildings		4,555,073		-		-		4,555,073	
Improvements Other Than Building		191,242		-		-		191,242	
Equipment Local Funds		1,178,980		79,806		-		1,258,786	
Governmental Activities Capital Assets	\$	5,949,839	\$	79,806	\$	-	\$	6,029,645	

Changes in capital assets used in business-type activities were as follows:

	Balance June 30, 2012 Additions				nsfers/ rements	Balance June 30, 2013		
Business-Type Activities				<u> </u>	11011	CHIONIC	<u> </u>	2010
Equipment	\$	55,636	\$	-	\$	-	\$	55,636
Less Accumulated Depreciation		(42,295)		(1,648)		-		(43,943)
Business - Type Activities Capital Assets, Net	\$	13,341	\$	(1,648)	\$	-	\$	11,693

(6) Long-Term Debt

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2013:

		Balance						Balance	D	ue Within
Governmental Activities	<u>Ju</u>	ne 30, 2012	Additions		F	Reductions	June 30, 2013		(One Year
Capital outlay certificates	\$	2,515,000	\$	225,000	\$	(180,000)	\$	2,560,000	\$	260,000
Compensated absences payable		95,711		23,049		(27,527)		91,233		23,009
Early retirement payable		7,642		-		(7,642)		_		-
Governmental activities				•						
long-term liabilities	_\$_	2,618,353	\$	248,049	\$	(215,169)	\$	2,651,233	\$	283,009
Business-Type Activities										
Compensated absences payable	\$	2,583	\$	-	\$	(2,543)	\$	40	\$	40

The governmental compensated absences will be paid from the general fund, special education fund and the pension tax fund. Early retirement will be paid from the pension tax fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013

(6) Long-Term Debt (Continued)

Long-term debt, other than compensated absences and early retirement, is comprised of the following at June 30, 2013:

Capital Outlay Certificates:

2012 General Obligation Capital Outlay Certificates due in three annual variable payments including interest at 1.60 percent through July 2015; paid from the Capital Outlay fund.	\$	225,000
including interest at 1.00 percent unough July 2013, paid from the Capital Outlay fund.	Ψ	223,000
2012 Crossover Refunding Capital Outlay Certificates require interest-only payments made by refunding escrow through June 2015; variable semi-annual payments starting		
December 2015; fixed interest at 0.90 to 2.75 percent, through January 2027; paid from		
the Capital Outlay Fund. (a)		880,000
2012 Refunding Capital Outlay Certificates require variable semi-annual payments,		
including fixed interest at 0.65 to 1.65 percent, through June 2017; paid from the		
Capital Outlay Fund.		545,000
2007 Capital Outlay Certificates require variable semi-annual payments,		
including fixed interest at 3.9 to 4.5 percent, from June 2007 through June 2015;		
paid from the Capital Outlay Fund escrow established with 2012 Crossover Refunding. (a)		910,000
	•	2 560 000

The annual requirements to amortize all debt outstanding as of June 30, 2013, excluding compensated absences and early retirement, are as follows:

Year	Capital Outlay					
Ending	Certif	icate	S			
June 30,	Principal		Interest			
2014	\$ 260,000	\$	49,818			
2015	1,070,000		45,475			
2016	280,000		22,828			
2017	205,000		19,040			
2018	70,000		16,015			
2019-2023	360,000		63,238			
2024-2028	315,000	21,140				
	\$ 2,560,000	\$	237,554			

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013

(6) Long-Term Debt (Concluded)

(a) In June 2012, the District issued Limited Tax General Obligation Crossover Refunding Certificates, Series 2012 (refunding certificates) to refund \$810,000 of outstanding Limited Tax General Obligation Certificates, Series 2007 (refunded certificates). The proceeds of the refunding were deposited in an irrevocable trust with an escrow agent to provide for \$810,000 of future debt service requirements on the refunded certificates and to meet the debt service requirements of the refunding certificates until the crossover date of June 1, 2015.

(7) Donor Restrictions

The restricted fund balance in the general fund at June 30, 2013 of \$3,446 is restricted for music, athletics, and library in accordance with donor restrictions.

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2013, the District managed its risks as follows:

Property/Liability Insurance

The District purchases liability insurance for risk related to torts, theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Workmen's Compensation

The District purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Health Insurance

The District joined the South Dakota School District Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. During the year ended June 30, 2013, the coverage provided a deductible of \$1,000 per person up to \$2,000 per family. The plan also provides for coinsurance of 80 percent up to \$10,000. The coverage also includes a \$2,000,000 lifetime maximum payment per person.

The District does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settlement claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits

The school district has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended June 30, 2013, no claims for unemployment benefits were paid. At June 30, 2013, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

NOTES TO FINANCIAL STATEMENTS (CONCLUDED) JUNE 30, 2013

(9) Interfund Activity

There were no interfund transfers during the year ended June 30, 2013. The Food Service Fund borrowed \$7,820 from the General Fund for operations at June 30, 2013.

(10) Emerging Issues

The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014. The standard claifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. For the District, the implementation of this pronouncement will change the presentation of deferred revenue.



NEWELL SCHOOL DISTRICT NO. 9-2

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - BUDGETARY BASIS FOR THE YEAR ENDED JUNE 30, 2013

	Rudgete	d Amounts	(Budgetary Basis)			
	Budgeted Amounts Original Final		- Actual	Variance		
Revenues:	Originar		Actual	- variance		
1000 Revenue from Local Sources:						
1110 Ad Valorem Taxes	\$ 601,831	\$ 601,831	\$ 555,466	\$ (46,365)		
1120 Prior Years' Ad Valorem Taxes	12,500	12,500	21,846	9,346		
1140 Gross Receipts Taxes	120,000	120,000	144,060	24,060		
1190 Penalties and Interest on Taxes	3,000	3,000	6,712	3,712		
1500 Earnings on Investments and Deposits	75	75	169	94		
1700 Cocurricular Activities:						
1710 Admissions	15,000	15,000	16,401	1,401		
1720 Concessions	20,000	20,000	´ <u>-</u>	(20,000)		
1790 Other Pupil Activity	4,500	4,500	23,754	19,254		
1900 Other Revenue from Local Sources:	,	,	,	,		
1910 Rentals	500	500	475	(25)		
1920 Contributions and Donations	-	-	588	588		
1990 Other	26,000	26,000	47,528	21,528		
2110 County Apportionment	15,000	15,000	29,388	14,388		
3000 Revenue from State Sources:	,	,	,	,		
3110 Unrestricted Grants-in-Aid	1,227,760	1,227,760	1,294,424	66,664		
3900 Other State Revenue	5,675	5,675	9,517	3,842		
4000 Revenue from Federal Sources:	•	,	,	,		
4120 Unrestricted Grants-in-Aid Received from						
Federal Government Through State	90,000	90,000	168,326	78,326		
4150-4199 Restricted Grants-in-Aid Received from						
Federal Government Through State	476,794	476,794	425,941	(50,853)		
Total Revenues	2,618,635	2,618,635	2,744,595	125,960		
Expenditures:						
1100 Instruction - Regular Programs:						
1110 Elementary	349,468	349,468	379,066	(29,598)		
1120 Middle/Junior High	176,314	176,314	163,713	12,601		
1130 High School	382,224	382,224	374,166	8,058		
1150 Title II Part A	21,000	21,000	-	21,000		
1200 Instruction - Special Programs:						
1270 Educationally Deprived	227,062	227,062	211,810	15,252		
2200 Support Services - Instructional Staff:						
2220 Educational Media	177,792	177,792	164,110	13,682		

NEWELL SCHOOL DISTRICT NO. 9-2

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - BUDGETARY BASIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

			(Budgetary	
	Budgete	Budgeted Amounts		
	Original	Final	Actual	Variance
2300 Support Services - General:				
2310 Board of Education	103,886	103,886	95,817	8,069
2320 Executive Administration	150,421	150,421	142,301	8,120
2400 Support Services - School:				
2410 Office of the Principal	-	-	843	(843)
2500 Support Services - Business:				
2520 Fiscal Services	95,222	95,222	87,488	7,734
2540 Operation and Maintenance of Plant	362,602	362,602	318,759	43,843
2550 Pupil Transportation	111,513	111,513	83,464	28,049
3000 Community Services:				
3500 Custody and Care of Children	150,000	150,000	151,027	(1,027)
6000 Cocurricular Activities:				
6900 Combined Activities	144,220	144,220	141,540	2,680
Total Expenditures	2,451,724	2,451,724	2,314,104	137,620
Change in Fund Balance	166,911	166,911	430,491	263,580
Fund Balance Beginning	874,863	874,863	874,863	-
Fund Balance Ending	\$ 1,041,774	\$ 1,041,774	\$ 1,305,354	\$ 263,580

The accompanying notes to required supplementary information are an integral part of this statement.

BUDGETARY COMPARISON SCHEDULE - CAPITAL OUTLAY FUND - BUDGETARY BASIS FOR THE YEAR ENDED JUNE 30, 2013

				(Budgetary	
	 Budgeted Amounts				Basis)	
	Original		Final		Actual	 Variance
Revenues:						
1000 Revenue from Local Sources:						
1110 Ad Valorem Taxes	\$ 470,000	\$	470,000	\$	483,722	\$ 13,722
1120 Prior Years' Ad Valorem Taxes	10,000		10,000		13,620	3,620
1190 Penalties and Interest on Taxes	2,000		2,000		2,690	690
Total Revenues	482,000		482,000		500,032	18,032
Expenditures:						
2500 Support Services - Business:						
2530 Facilities Acquisition and Construction	65,000		65,000		55,019	9,981
2540 Operation and Maintenance of Plant	5,000		5,000		5,116	(116)
2550 Pupil Transportation	2,500		2,500		84,507	(82,007)
2570 Internal Services	6,000		6,000		5,214	786
5000 Debt Service	316,903		316,903		255,608	61,295
Total Expenditures	 395,403		395,403		405,464	(10,061)
Excess of Revenues over Expenditures	86,597		86,597		94,568	7,971
Other Financing Sources						
5122 Debt Proceeds - General Obligation						
Certificates	-		-		225,000	225,000
5130 Sale of Surplus Property	-		_		2,995	2,995
Total Other Financing Sources	 		-		227,995	 227,995
Change in Fund Balance	86,597		86,597		322,563	235,966
Fund Balance Beginning	1,245,790		1,245,790		1,245,790	-
Fund Balance Ending	\$ 1,332,387	\$	1,332,387	\$	1,568,353	\$ 235,966

The accompanying notes to required supplementary information are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

BUDGETARY COMPARISON SCHEDULE - SPECIAL EDUCATION FUND - BUDGETARY BASIS FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		(Budgetary Basis)					
	<u> </u>	Original Final		Actual		ι	⁷ ariance	
Revenues:								
1000 Revenue from Local Sources:								
1110 Ad Valorem Taxes	\$	245,000	\$	245,000	\$	226,470	\$	(18,530)
1120 Prior Years' Ad Valorem Taxes		5,000		5,000		6,363		1,363
1190 Penalties and Interest on Taxes		1,250		1,250		1,256		, 6
1900 Other Revenue from Local Sources:		ŕ		•		,		
1990 Other		-		-		5,073		5,073
3000 Revenue from State Sources:						,		,
3120 Restricted Grants-in-Aid		250,000		250,000		266,689		16,689
4150-4199 Restricted Grants-in-Aid Received		,		•		,		•
from Federal Government Through State		97,539		97,539		88,121		(9,418)
Total Revenues		598,789		598,789		593,972		(4,817)
Expenditures:								
1200 Instruction - Special Services:								
1220 Programs for Special Education		552,457		552,457		340,839		211,618
2100 Support Services - Pupils:								
2130 Health		-		-		21,719		(21,719)
2170 Student Therapy Services		-		-		24,970		(24,970)
2700 Support Services - Special Education:								
2730 Transportation Costs		-		-		28,186		(28,186)
2750 Other Special Education Costs		-		-		83,629		(83,629)
Total Expenditures		552,457		552,457		499,343		53,114
Change in Fund Balance		46,332		46,332		94,629		48,297
•		, -		, -		,		,
Fund Balance (Deficit) Beginning		(3,171)		(3,171)		(3,171)		-
Fund Balance (Deficit) Ending	\$	43,161	\$	43,161	\$	91,458	\$	48,297

The accompanying notes to required supplementary information are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

BUDGETARY COMPARISON SCHEDULE - PENSION TAX FUND - BUDGETARY BASIS FOR THE YEAR ENDED JUNE 30, 2013

			(Budgetary			
	Budgeted Amounts		Basis)			
	Original Final		Actual	V	Variance	
Revenues:	.					
1000 Revenue from Local Sources:						
1110 Ad Valorem Taxes	\$ 47,500	\$ 47,500	\$ 48,410	\$	910	
1120 Prior Years' Ad Valorem Taxes	1,000	1,000	1,362		362	
1190 Penalties and Interest on Taxes	200	200	269		69	
Total Revenues	48,700	48,700	50,041		1,341	
Expenditures:						
1100 Instruction - Regular Programs:						
1110 Elementary	16,045	16,045	15,090		955	
1120 Middle/Junior High	8,001	8,001	7,590		411	
1130 High School	26,649	26,649	17,362		9,287	
1200 Instruction - Special Programs:	,>		11,500		,,	
1270 Educationally Deprived	-	_	2,930		(2,930)	
3000 Community Services:			_,-		(-,)	
3500 Custody and Care of Children	-		290		(290)	
4500 Early Retirement	_	-	7,642		(7,642)	
6000 Cocurricular Activities:			,		())	
6900 Combined Activities	-	-	1,237		(1,237)	
Total Expenditures	50,695	50,695	52,141		(1,446)	
Change in Fund Balance	(1,995)	(1,995)	(2,100)		(105)	
Fund Balance Beginning	117,124	117,124	117,124		-	
Fund Balance Ending	\$ 115,129	\$ 115,129	\$ 115,024	\$	(105)	

The accompanying notes to required supplementary information are an integral part of this statement.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2013

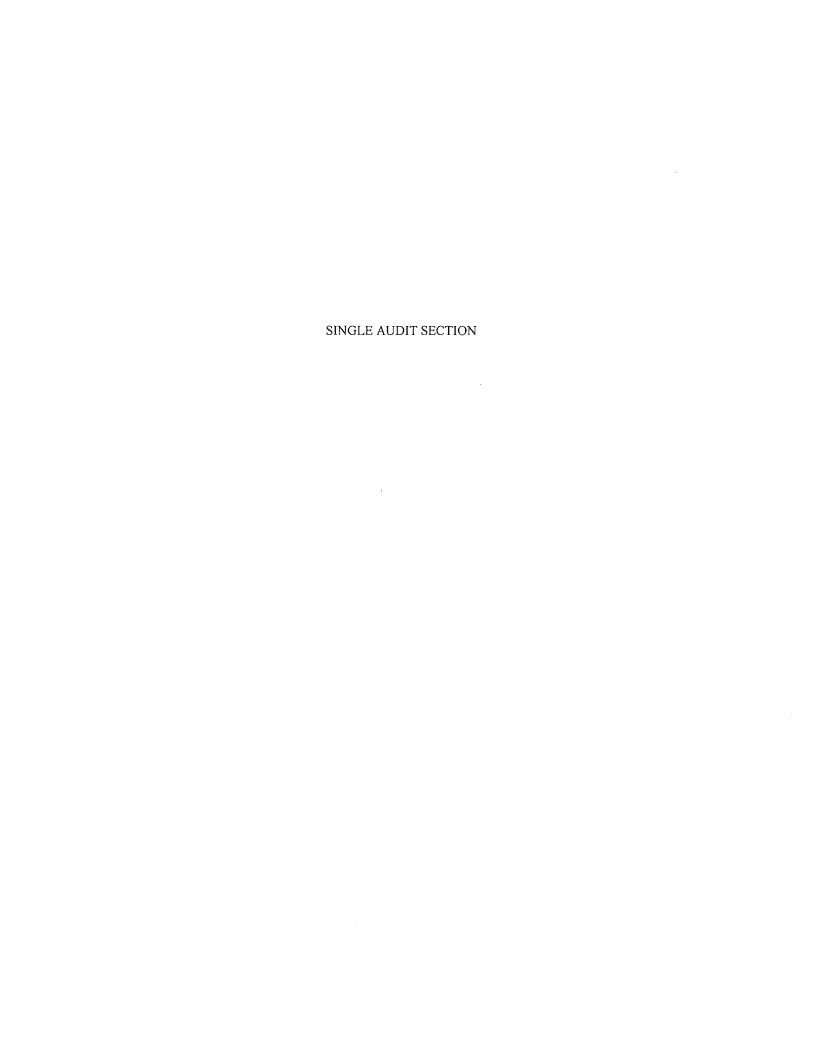
(1) Basis of Presentation

The Budgetary Comparison Schedule has been prepared on the budgetary basis of accounting. The Budgetary Comparison Schedule presents expenditures for capital outlay purposes within each function, while the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances presents capital outlay expenditures as a separate function.

(2) Budgetary Legal Requirements

South Dakota Codified Law prescribes the budgetary procedures to be followed by the District as follows:

- 1. Prior to the first regular board meeting in May of each year, the School Board prepares a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
- 2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
- 3. The proposed budget is published for public review no later than July 15 each year.
- 4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
- 5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
- 6. After adoption by the School Board, the operating budget is legally binding at the fund level, and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, except as indicated in number 8.
- 7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
- 8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets when monies are available to increase legal spending authority.
- 9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board. The District does not employ encumbrance accounting as an extension of formal budgetary integration.
- 10. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Generally accepted accounting principles prescribe that budgetary information be presented for the general fund and major special revenue funds of the District only.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2013

The recommendations reported in the prior audit of Newell School District No. 9-2 as Findings No. 2007-1, 2007-2, 2007-7 and 2007-8 will be restated on the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan, Part B and Part C as Findings No. 2013-001, 2013-002, 2013-003, and 2013-004. Portions of Finding No. 2007-1 corrective action were implemented during 2013, so these portions were not repeated. The District is working on implementing corrective actions on certain findings or is accepting the risk associated with other findings. Finding No. 2011-01 was not repeated, as the corrective action plan was implemented.

SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN JUNE 30, 2013

A. SUMMARY OF AUDIT RESULTS

- 1. The independent auditor's report expresses an adverse opinion on the governmental activities of the District. The independent auditor's report expresses an unmodified opinion on the business-type activities, major funds, and aggregate remaining fund information of the District.
- 2. Material weaknesses disclosed during the audit of the financial statements are reported in the <u>Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.</u>
- 3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
- 4. A significant deficiency and material weaknesses disclosed during the audit of the major federal award programs are reported in the <u>Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance as Required by OMB Circular A-133.</u>
- 5. The auditors' report on compliance for the major federal award programs for the District expresses an unmodified opinion.
- 6. The audit findings related to the major federal award programs for the District are reported in Part C of this schedule.
- 7. The programs tested as major programs (or clusters) were:
 - a. Title I Programs Cluster (CFDA #84.010)
 - b. Title IV, Part B -21^{st} Century (CFDA #84.287)
 - c. National Mineral Leasing (CFDA #15.227)
- 8. The threshold for distinguishing type A and B programs was \$300,000.
- 9. The District was not determined to be a low-risk auditee.
- B. FINDINGS -- FINANCIAL STATEMENT AUDIT

Material Weaknesses in Internal Control

2013-001 FINDING: Segregation of Duties

Condition and Cause: An adequate system of accounting duties and functions has not been achieved to assure adequate internal control over safeguarding of assets and the reliability of financial records and reporting. Segregation of duties also encompasses a review function of all phases of the District's financial operations. The following are specific areas of inadequate segregation of duties:

a. The assistant business manager or business manager receives cash and checks, posts the cash/check and electronic payments, prepares the deposit slip, takes the deposit to the bank, and receives the bank statement unopened.

SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN (CONTINUED) JUNE 30, 2013

B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)

Material Weaknesses in Internal Control (Continued)

2013-001 FINDING: Segregation of Duties (Continued)

- b. The assistant business manager generates the vendor checks, prepares the disbursement listing for the School Board meetings, has access to the signature disk and blank check stock, and receives the bank statements. In addition, the assistant business manager is an authorized check signer for the fiduciary checking accounts.
- c. The assistant business manager enters all payroll information, generates the payroll, initiates the online payment, and receives the bank statement. The direct deposit listing is reviewed by the School Board's Vice Chair; however, the report does not include hours worked or employee's pay rates. Salaries expenditures represent over half of the District's expenditures.
- d. Both the assistant business manager and the business manager post journal entries, and none are reviewed.
- e. The financial statement presented to the School Board is a summary created by the business manager, rather than a report directly from the accounting software.
- f. The cash receipts were not being tied to the deposit report from the food service module by the business manager.

Criteria: Internal controls should be in place to provide reasonable assurance that all financial transactions are reviewed and approved before payments are made and reports are generated. Controls also need to be in place to ensure all revenue is processed and recorded correctly. Compliance with all grant terms and related cost principles must be part of any effective internal control system.

Questioned Costs: None

Effect: The effectiveness of the internal control system relies on enforcement by management. Small problems can lead to more severe problems, such as questioned costs, or even make the District more susceptible to fraud.

Recommendation: Under these circumstances, the most effective controls lie in (1) management and the Board of Education's knowledge of the District's financial operations and (2) striving to obtain as much segregation of duties as possible so that no one person has complete control of any type of financial transaction. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. Supervision and review functions must be done continually during all phases of the accounting cycle.

SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN (CONTINUED) JUNE 30, 2013

B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)

Material Weaknesses in Internal Control (Continued)

2013-001 FINDING: Segregation of Duties (Continued)

Specifically:

- a. The assistant business manager or business manager should not directly receive any cash/check payments, if that same person posts them into the general ledger. The business manager should review the weekly deposits by comparing them to receipt books from other locations.
- b. The Board members who review invoices before the Board meeting should also review the checks. These reviewed checks should then go to the high school secretary for mailing. The assistant business manager should not be an authorized check signer of the fiduciary checking account.
- c. The superintendent or a School Board member should review the direct deposit listing before it is submitted to the bank for hours worked and pay rates of District employees. A School Board member has been reviewing the direct deposit listing after submission; however, the listing does not include employee pay rates or hours worked.
- d. All journal entries posted by the assistant business manager should be reviewed by the business manager and approval should be documented.
- e. The School Board should review a balance sheet and a revenue and expenditure report comparing budget to actual generated from the accounting software.
- f. The business manager should be periodically comparing the deposit report from the food service module to the actual cash receipts received.

Response/Corrective Action Plan: The District strives to attain as much segregation of duties as possible with the staff available. Sally Pflaumer, Business Manager, is responsible for the corrective action plan for this finding.

Specifically:

a. The duties of receiving payments whether cash or check are made by several individual staff members and the Cash Receipt Report is checked over and signed by the Business Manager before posting. The Business Office personnel, HS Secretary and E/MS Secretary all share duties of reconciling campus deposits to receipt books. The Business Manager assumes responsibility of these personnel.

SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN (CONTINUED) JUNE 30, 2013

B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)

Material Weaknesses in Internal Control (Continued)

2013-001 FINDING: Segregation of Duties (Concluded)

Response/Corrective Action Plan (Continued):

- b. A School Board member and the Superintendent has started reviewing the cancelled checks and overall account activity for propriety, including reasonable amounts, recognizable vendors, and proper authorized signatures. Check stubs are included in the reviewing process.
- c. The Superintendent will start reviewing the payroll reports quarterly.
- d. The Business Manager and Superintendent began reviewing any journal entries during fiscal year 2013.
- e. The Business Manager will evaluate the best process for the Board's review of budget to actual information.
- f. The Business office will oversee the lunch tracker on a quarterly basis to check a random account through food service.

2013-002 FINDING: Capital Asset Records

Condition and Cause: Capital asset records were not properly maintained to support the amounts reported for governmental activities capital assets, resulting in lack of control over public assets and inaccurate financial statements.

Criteria: Accounting principles generally accepted in the United States of America require that capital assets be recorded as assets and depreciated.

Questioned Costs: None

Effect: These conditions result in unreliable data being reported for capital assets for governmental activities and lack of safeguards for these assets. In addition, the District's audit report for governmental activities expresses an adverse opinion.

Recommendation: The District needs to establish and maintain adequate capital assets accounting records. The general ledger capital asset balance should be reconciled to the accounting records established.

Response/Corrective Action Plan: Business Office is currently verifying existing records and updating newer purchases with a five year goal to accommodate/include whole campus. Sally Pflaumer, Business Manager, is responsible for the corrective action plan for this finding.

SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN (CONTINUED) JUNE 30, 2013

B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONCLUDED)

Material Weaknesses in Internal Control (Concluded)

2013-003 FINDING: Preparation of Financial Statements

Condition and Cause: As in prior years, we were requested to draft the audited financial statements, related footnote disclosures, and Schedule of Expenditures of Federal Awards (SEFA) as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the District's statements, footnotes and SEFA, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the District at the same time in connection with our audit. This is not unusual for us to do with organizations of the District's size.

Criteria and Effect: It is our responsibility to inform the School Board that this deficiency could result in a material misstatement to the financial statements or SEFA that would have not been prevented or detected by the District's Management.

Questioned Costs: None

Recommendation: As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the District's financial statements. We are satisfied that the appropriate steps have been taken to provide the District with the completed financial statements. It is the responsibility of management and the School Board to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: Both management and the School Board have been informed of this process and are confident that the information is accurate and are willing to accept this risk. The Business Manager, Sally Pflaumer, is responsible for the corrective action plan for this finding.

2013-004 FINDING: Internal Control over Significant Accounts

Condition and Cause: During the course of our engagement, we proposed material audit adjustments. The adjustments included adjusting grant revenue and receivable, capital assets, workman's compensation liability, depreciation, deferred revenue, escrow, long-term debt and interest expense.

Criteria and Effect: These adjustments were not recorded through the District's existing internal controls, and therefore, resulted in a material misstatement of the District's financial statements. As in past audits, these adjustments were made by us as part of our audit process.

Ouestioned Costs: None

Recommendation: We recommend management record these adjustments, which are necessary to comply with accounting principles generally accepted in the United States, and record the adjustments prior to the annual audit in future years.

Response/Corrective Action Plan: The District will work on having all adjustments made prior to each annual audit. The Business Manager, Sally Pflaumer, is responsible for the corrective action plan for this finding.

SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN (CONCLUDED) JUNE 30, 2013

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

The findings 2013-001, 2013-003, and 2013-004 listed in Part B also relate to the major federal programs, which are listed in this report and in the Schedule of Expenditures of Federal Awards. Finding 2013-001 relates to the allowable costs compliance requirement, while findings 2013-003 and 2013-004 relate to the reporting compliance requirement.

Significant Deficiency in Internal Control

2013-005 FINDING: Maintenance of Effort

Condition and Cause: The District did not comply with maintenance of effort requirements for Title I. Due to significant reductions in operating expenses needed to meet budget and staff turnover, the District's 2012 expenditures in total and by student for 2012 were not 90 percent of 2011 expenditures. This finding relates to the matching, level of effort, and earmarking compliance requirement.

Criteria and Effect: The District's combined fiscal effort per student or the total expenditures from state and local funds for the preceding year must not be less than 90 percent of such for the second preceding year. As a result of this noncompliance, the Department of Education would have to reduce the amount of funds allocated to the District in the proportion by which the District fell below the 90 percent requirement. However, the District obtained a waiver of this noncompliance from the Department of Education subsequent to year-end.

Questioned Costs: None

Recommendation: We recommend the District closely monitor maintenance of effort requirements throughout the year to ensure that compliance is being achieved.

Response/Corrective Action Plan: The Business Manager and Superintendent will develop a process to assess the maintenance of effort during the budget process.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

		CFDA Numbers		Amount
U.S. Depa	rtment of Agriculture:			
	ugh the S.D. Department of Education:			
Non-Cas	sh Assistance (Commodities):			
Nation	nal School Lunch Program (Note 6)	10.555	\$	6,080
Cash As	sistance:			
Schoo	l Breakfast Program (Notes 2 and 6)	10.553		14,966
Natior	nal School Lunch Program (Notes 2 and 6)	10.555		74,094
Fresh	Fruit and Vegetable Program	10.582		8,831
Total U.S.	Department of Agriculture			103,971
IIS Dana	rtment of the Interior:			
-	ugh the S.D. Department of Education:			
	Grazing (Note 1)	15.226		10,726
•	Mineral Leasing (Notes 1 and 3)	15.227		157,600
	Department of the Interior	13.227		168,326
	rtment of Education: ugh the S.D. Department of Education;			
Title I, F	Part A Basic Programs Local Educational Agencies (Note 3)	84.010		205,233
Special	Education State Grants (IDEA Part B) (Note 4)	84.027		87,156
Special	Education State Grants (IDEA Preschool) (Note 4)	84.173		965
Title IV	Part B 21st Century Grant (Note 3)	84.287		151,079
Title II,	Part A Improving Teacher Quality State Grant	84.367		66,134
Total U.S.	Department of Education			510,567
Total			\$	782,864
Note 1:	Federal reimbursements are not based upon specific expenditures; the represent cash received rather than federal expenditures.	nerefore, the amou	nts 1	reported here
Note 2:	These amounts reflect cash received. Federal reimbursements are be provided rather than reimbursement for specific expenditures.	ased on approved	rates	s for services
Note 3:	This program was tested as a major program.			
Note 4:	These programs make up the Special Education Cluster.			
Note 5:	The Schedule of Expenditures of Federal Awards is presented on the	accrual basis of a	ccou	inting.
Note 6:	These programs make up the Child Nutrition Cluster.			



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

School Board Newell School District No. 9-2 Newell, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **NEWELL SCHOOL DISTRICT NO. 9-2** (the District) as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 10, 2014, in which an adverse opinion was expressed on the governmental activities and an unmodified opinion on the business-type activities, each major fund, and the aggregate remaining fund information. The governmental activities are adverse due to a lack of recording certain capital assets and depreciation expense.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as Part B, Findings 2013-001, 2013-002, 2013-003, and 2013-004 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying Schedule of Findings, Questioned Costs and Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

KETEL THORSTENSON, LLP Certified Public Accountants

March 10, 2014

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133

School Board Newell School District No. 9-2 Newell, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the compliance of **NEWELL SCHOOL DISTRICT NO. 9-2** (the District) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Unmodified Opinion on Each of the Major Federal Programs

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as Finding 2013-005. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as 2013-001, 2013-003 and 2013-004 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as 2013-005 to be a significant deficiency.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

KETEL THORSTENSON, LLP Certified Public Accountants

March 10, 2014